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BEFORE THE
POSTAL REGULATORY COMMISSION

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2012	)))	**Docket No. N2012-1**

RESPONSES OF NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO WITNESS DR. MICHAEL A. CREW TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/NALC-T1-20 through T1-24)

Pursuant to Rule 3001.26 of the Commission's Rules of Practice and Procedure, the National Association of Letter Carriers, AFL-CIO hereby files the responses of witness Dr. Michael A. Crew, NALC-T1, to the following interrogatories of the United States Postal Service, USPS/NALC-T1-20 through T1-24.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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USPS/NALC-T1-20

At page 19, line 17 to page 20, line 2 you state:

> It is true that the costs of the peak could be reduced or eliminated if peak capacity were reduced, leaving peak demand unmet. However, this is a misguided approach, because almost always the benefits to the customer lost by not meeting peak demand would exceed the costs saved by reducing capacity.

Please explain fully the basis for this statement. Please provide any studies or other authoritative sources upon which you rely to support this statement.

RESPONSE TO USPS/NALC-T1-20:

This statement is based upon the theory of peak load pricing, which has been the subject of a considerable literature going back to the 1920s, at least to my knowledge. Where demand fluctuates periodically, capacity has to be built to meet the peak if demand is to be satisfied. In such cases, failing to meet peak demand is always an option but always an inefficient one under deterministic demand and supply conditions. With stochastic demand it may be efficient not to meet some relatively rare peak demands. However, this is not the approach being employed by USPS in its plans to reduce capacity. This brief elaboration of my testimony is the basis for my statement that the benefits to the customer lost by not meeting peak demand would almost always exceed the costs saved by reducing capacity. For a source supporting my statement, see the work cited in footnote 5 of my testimony. For an explanation of the peak load problem in postal service, see Crew, Kleindorfer and Smith (1990), which was based on the testimony of Paul R. Kleindorfer in R-87, and Crew and Kleindorfer (1992), cited in my testimony.

RESPONSE TO USPS/NALC-T1-21:

On page 20, you provide an example of the consequences of "not meeting peak demand." Please explain how this example relates to postal services and, in particular, how it relates to the Postal Service proposal in this docket regarding service standard revisions. How, if at all, are the consequences of "not meeting peak demand" in electricity "by disconnecting customers" analogous to the proposal by the Postal Service in this proceeding?

RESPONSE TO USPS/NALC-T1-21:

In the example, the utility is attempting to address the peak load problem by denying its customers a service that they want and are willing to pay for, namely, electricity during peak periods. The loss in benefits from being disconnected will vary according to customer valuation. For example, an ice cream factory may find its product ruined. Here, similarly, USPS is seeking to address its peak load problem by denying its customers a service, namely, first-class mail delivered according to current service standards, but charging them the same price for an inferior service. This is akin to the ice cream maker paying for a service that provided for no more than x disconnections of y minutes in a year but then the utility goes ahead and disconnects him more than x times for more than y minutes and still charges him the same price.

NALC-T1-22

On pages 23 and 25 you variously cite to an article authored by Filipa Silva entitled "Priority and Non-Priority Service: Returning to the Origins," apparently in a volume you and your partner edit, published either in 2011 or in 2012. Please provide a copy of the cited article.

RESPONSE TO USPS/NALC-T1-22:

I object to USPS's request that I furnish it a copy of this article. The article appears in a published volume that is available to the public, including to USPS. I note that it is available for purchase as an e-book from GoogleBooks or in hardcopy directly from the publisher, Edward Elgar.

RESPONSE OF NALC WITNESS CREW (NALC-T1) TO USPS INTERROGATORIES

USPS/NALC-T1-23

Is it your view that **any** decrease in the quality of service provided by the Postal Service would create "serious danger of irreparable damage to mail service and to the enterprise" (NALC-T-1 at 3)? If your response is anything other than an unqualified "yes", please explain what criteria must be met if lesser damage to (a) service, or (b) to the enterprise, would, in your opinion, follow.

RESPONSE TO USPS/NALC-T1-23:

In response to your first question in Interrogatory T1-23, I should indicate that it is definitely not my view that any decrease in quality would create serious and irreparable damage to mail service and the enterprise. In response to your second question, I state that I have not formulated detailed criteria for determining what types of reduction in quality would create less than irreparable damage to mail service and the enterprise. However, it is clear to me that what USPS is proposing here, a deliberate, permanent, major, system-wide reduction in its service standards for its flagship mail product, would create irreparable damage, especially since it is proposing this reduction at the same time as it is seeking the elimination of Saturday delivery and a reduction in the number of post offices available to its customers.

USPS/NALC-T1-24

At page 21, lines 5 to 12 you state:

> Although cited by Mr. Smith, my work with Paul Kleindorfer on the peak load issue, far from supporting USPS's approach of reducing capacity, shows that the peak load problem is solved by differentiated pricing. In particular, the vast body of economic literature on the subject shows that the peak load problem is solved by raising the price of the product driving the peak and lowering the price of the off-peak product.

a. Please describe your proposed use of differentiated pricing to solve the peak load problem witness Smith identifies.

b. If not already included in your response to part (a), please explain your understanding of how the price cap (NALC-T-1 at 22) applicable to First-Class Mail would impact your proposed differential pricing solution.

RESPONSE TO USPS/NALC-T1-24:

In response to subsection (a), I note that USPS and other POs currently employ service differentiated pricing based upon the principles expounded by Mr. Smith along with Dr. Kleindorfer and me in our 1990 paper and in Dr. Kleindorfer's testimony in R-87. My objection to the major service standard change proposed here is that it goes in the direction of abandoning service differentiated pricing by introducing a serious cut in the service standards for First Class Mail. As you imply in subsection (b), the price cap set forth in existing legislation severely limits USPS from addressing the peak load problem efficiently through differentiated pricing. All of this underlines my main point, that reducing the quality of USPS's high-margin product is certainly not the solution to the peak load problem. In fact, quite the reverse; as I explain in my testimony, not only is USPS's proposal the very antithesis of peak load pricing but also, by imposing a quality reduction, and therefore a real price increase, it poses the risk of irreparable damage to the business.